

**COMMONWEALTH CONFERENCE**  
**NATIONAL INTELLIGENCE COUNCIL 2020 PROJECT – SCENARIO**

The paper looks at Europe and Russia separately, although there are some themes and issues common to both. In each we notice the continued US dominance of the global agenda, the rising power of China, the declining strategic importance of Europe in terms of world security, and the difference between Europe and Russia's dwindling, ageing population and the rising, juvenating populations of the US and China.

## **EUROPE**

First Europe, which in this context means the whole of the continent less the Former Soviet Union, but including the Baltic States.

In this scenario, in 2020, Europe will be major global economic and political power, rivalling the United States and China. The engine of Europe will be the European union (EU), expanded to encompass all the countries of Europe, including Norway, Switzerland, Iceland, the Balkans, Turkey and possibly Ukraine.

Europe will increasingly pursue its own interests – and be less inclined to follow the lead of the US. It will strike out on its own with initiatives eg in Mediterranean/Africa and Middle East – areas where Europe believes that for historical, geographical or cultural reasons it has a distinctive role to play.

But:

The EU will be less homogeneous. There will still be distinctions between eastern and western Europe (although less so than now, with living standards in poor and rich regions more closely aligned).

And its increased size will make the EU more ponderous. There may be tension between advocates of inclusivity (i.e. the widest possible Europe) and those of institutional idealism (narrower Europe but deeper co-operation). However, by 2020 the EU will have adapted to the need to take decisions at 30 (ish), and for differences in attitude between “old” and “new” Europe to be less prevalent; the so-called Franco-German motor will have given way to an enlarged central grouping, although jockeying for leadership – particularly among the large states - and tactical alliances will remain. On the major issues (security, governance, economy) there will be a new European consensus. But recurrence of internal instability in aspirant countries like Albania, Macedonia, Moldova, Ukraine and Belarus, or pressure from the Russian Federation against their inclusion in European structures, could be a source of tension.

## **Drivers**

Turning to the drivers identified by the NIC.

### *Demographics*

This will be an important driver for Europe. Current demographic trends will continue resulting in a population which is ageing and declining. Europe has the lowest birthrate of any continent. Three Western European nations (Germany, France and Spain) have the lowest birthrates in Europe. Yet longevity is improving, increasing the ratio of dependants to workers. By 2030 a quarter of Western Europe's population will be over 65. The worker deficit will be made up to some extent by increased population movement within an expanded EU (eg from the Balkans and Turkey). While central and eastern European states will experience reductions in birthrate compared with current levels, they will continue to outstrip Western Europe. Over time this will alter the dynamics within the EU.

Some European countries (eg Germany) are already struggling to deal with the rising pension/health costs of an ageing population (reform is underway but slowly). Discretionary expenditure such as defence and overseas aid is likely to come under severe pressure in order to preserve essentials such as education and healthcare. But better co-ordination should ensure a more efficient European effort.

Higher birthrates among immigrant populations will impact on the overall ethnic mix. Their significance as a proportion of the overall electorate will increase. Governments will need to take account of this. It may affect attitudes to international security issues (eg Arab/Israel, international terrorism) and relations with the developed world. Increasing opposition to immigration, as evidenced by the series of far right electoral victories across the continent, could herald more restrictive immigration, making the strain of the ageing population worse, as well as lowering economic growth rates. A rise in intolerance toward immigrants also has implications for social stability.

### *Natural Resources and Environment*

Pressure on the environment will continue. People will increasingly be environmentally aware and see environmental protection as a greater priority. Europe will be more reliant on external energy sources and to meet its needs will look to renewable energy (still unlikely to be a major source), nuclear energy, and imports - particularly from Russia given volatility elsewhere (although without major investment in hydrocarbon production and distribution Russia will not be able to fill the gap). Technological advances (eg liquefied gas) will allow gas supply sources to be diversified and new technologies, such as fuel cell powered cars, will be more widely used.

Europe will be far more dependent on food imports following long overdue agricultural reform. However, this will have created stresses and unemployment in rural areas, undermining traditional rural societies particularly in accession states.

Environmental damage (eg flooding of low-lying parts of Europe such as the Netherlands as a result of global warming; pollution) will increase, with potential impacts on health and agriculture. Managing this will require more effort and resources; it will have risen up the political agenda, creating greater tension with those parts of the world seen as less "green".

### *Science and Technology*

Europe will remain a centre of innovation. The demise of much of its traditional heavy industry will continue. Engineering (where it remains) will focus on top-end/hi tech (eg motor cars, space). Service industries will continue to dominate. By 2020 China may be competing with European manufacturers on “high level” products (as opposed to just assembling European-designed products – e.g. DVD players). Nonetheless, Europe’s well-established high technology industries and clusters, and its relatively good education systems will ensure that it remains at the fore of many technologically advanced industries.

### *Global economy and Globalisation.*

The EU will continue to have below potential economic growth on average, and relatively high unemployment, because of remaining inflexibility in the “old” (ie W European) EU economies. Globalisation will make flexibility increasingly important, as will the new entrants to the EU, who will pay lower wages than the established members.

The EU as a whole will be the second biggest economy in 2020 (after the US) and be increasingly integrated. The US will have higher average economic growth, and it will be obvious that in terms of GDP size, China is catching up on the EU fast. However, China will continue to have a far lower GDP/person than the EU in 2020 and beyond.

Eastern European countries will be the fastest growing parts of Europe up to 2020. EU membership will ensure that they not return to their political or economic past and will aid investment. Other benefits of membership will include regional aid from Brussels, faster liberalisation in some areas, and generally strengthened economic institutions. On the downside, the EU will bring costly regulations, arguably unsuitable for the developing Eastern European countries, but this will not outweigh the positive factors.

The process of globalisation will continue and extend. This should benefit both rich and poor countries. Globalisation will bring transitional costs, however, as economic activities shift to their optimal locations - for instance manufacturing production currently moving to China from both rich and middle income countries. This will produce uncertainty, and perhaps resentment, amongst workers who have to find new jobs.

This may lead to protectionist pressures, which if realised constitute a threat to the world economy up to 2020. The World Trade Organisation will have been undermined by continued failures. International tensions may make people re-think the interdependence of nations that globalisation brings. An oil price shock is possible, most likely relating to some negative event in the Middle East.

### *National and International Governance*

2020 will see an expanded EU with increased competencies (to include defence, foreign policy and greater harmonisation of tax). Nation states will remain but they will be bound increasingly together by common interests and values and by European machinery. Economic strength will be accompanied by increased political confidence and

assertiveness. Common Foreign and Security Policy will have improved the coherence of Europe's international approach. But democratic apathy will continue with a sense of disengagement between those making the decisions and ordinary citizens.

The bringing together of Europe in the EU will see an increased sense of European identity. This, and increased economic links, will lead to a new political relationship between Europe and Russia. The two will co-ordinate and concert international action.

Pressure for UN reform will by 2020 have been irresistible. The UNSC will have expanded. Japan, Germany, India, South Africa and Brazil will be permanent members.

### *Future of Conflict*

European Security and Defence Policy will have added a credible, albeit limited, security and military dimension (fuelled by US force reductions in Europe). US military capability will remain far greater. Europe will not be prepared to make the sacrifices in social expenditure to maintain, let alone narrow, the military gap with the US. While some improvements will come about through improved co-ordination and less duplication, Europe will increasingly focus its efforts on small scale conflict, counter-terrorist, and conflict prevention, not heavy war-fighting. But with reduced and changing US force levels, and in the absence of a credible conventional threat, it will accept responsibility for its own collective defence. A key aspect of European defence may be a European Theatre Missile Defence (TMD) system, probably with Russian involvement. NATO will probably remain, but with a more diffuse membership and more limited decision-making potential. Its focus will be on conflict prevention and peacekeeping outside Europe, not territorial defence. Some NATO spheres of activity will have been taken over by European bodies.

Terrorism will remain a problem. By 2020 some criminal elements will have terrorist capabilities. Religious extremists will continue to conduct terrorist acts. But terrorism for nationalist reasons (e.g. Ireland or Spain) will be rare.

### *Role of the US*

The US will remain a friend and ally sharing common values of freedom and democracy. But there will be tensions, and these will be greater than now. The terms of the relationship will have changed. US forces in Europe will be much reduced. The remaining presence will have shifted further south and east, and will focus on using Europe as a base for operations elsewhere, rather than defence of Europe. Europe will increasingly seek to strike a different tone to the US and to be a distinctive voice on the international stage. It will be more assertive; and will see the US increasingly as an economic and political competitor, as well as a friend.

### **What are the most important trends shaping regional events between now and 2020?**

- Europe growing in confidence: it will be increasingly assertive both politically and economically, and prepared to take an independent line internationally.

- Europe growing in size – more and more countries will have entered the EU or associations with it.
- Europe growing in stature – it is seen increasingly by others (e.g. China) as an economic and political power to rival the US.
- Increased European identity – common institutions, common currency, common policies etc. People increasingly seeing themselves as citizens of Europe as well (not instead of) citizens of nation states.

### **Wild Cards**

- Europe stagnates – finding it cannot handle expansion, leading to inertia and decline. In the defence policy arena it's possible to see three scenarios: an independent defence policy with higher, more efficient spending; a more dependent policy, allowing continued high social spending; or independent policy without adequate spending, weakening Europe's strategic relevance.
- Europe splits – new fault lines emerge for example between old and new Europe; north and south; big and small states.
- Europe grows – both geographically (eg EU expands to include Russia) and in responsibility (for example eclipsing and replacing NATO).
- New cold war – with a resurgent Russia and friends. The Islamist fringe? Or someone else?
- New European instability – renewed Balkan conflict?

### **RUSSIA**

Russia is at a testing moment, in the run-up to a presidential election. Looking ahead to 2020, a great deal will depend on how the current trial of strength between, essentially, the business/market reform lobby and the 'power'/security lobby plays out.

Russia faces enormous objective challenges to governance:

- Political infrastructure (parties etc) and culture are still weak
- The 'democratic transformation' has been left incomplete. The political elite and bureaucracy at all levels are still largely able to control political processes from above: indeed that trend has strengthened. Looking ahead, few major parties or figures are genuinely committed to western-style democracy.
- Market reforms are incomplete. The hardest decisions have been left for Putin's second term, eg on reform of housing and welfare, structural and banking reform. Russia is still far too dependent on the energy and extractive industries, and hence on the oil price.
- Significant demographic issues include population fragility and imbalance – life expectancy is below replacement level.

In 2020, Russia's relations with the outside world will continue to be ambivalent. It will continue to define its interests in ways which do not always chime with those of the major European countries, but a reversion to outright military/ideological confrontation with the West is virtually inconceivable. In external relations, Russia will be more closely

identified with Europe, and probably linked by some form of formal treaty or agreement. Whether that will actually be EU membership will depend on evolution in the EU as well as in Russian policy. As a member of the WTO, it will be more deeply integrated in the international economy, yet protectionist sentiments are likely still to be strong in certain sectors and regions. Many in Russia (probably a majority) would resist absorption into a larger entity of which Russia was not the pre-eminent component, in spite of any economic benefits (which may not seem so tangible to voters). A major challenge for the leadership will be how to reconcile the reality of a medium-sized economy with Russia's continuing ambitions to be a major Power. The main external partners will still be the USA and the EU, followed by China and India. Russia will remain a major Power in Eurasia and retain a close interest in the CIS, whose economies will probably still be closely linked.

Political and security links with the CIS countries are likely to be asymmetrical coalitions. Russia's ties with the other Slav countries of the former Soviet Union (Ukraine and Belarus) may be closer, and more deeply institutionalised. Even if Ukraine succeeds in its aspiration of joining the EU (and Russia will do as much as possible to prevent it), the social, infrastructure and economic ties will remain strong. Some form of federation, even union, with Belarus is possible. The South Caucasus (Azerbaijan and Georgia) will want to remain at a greater distance, though Georgia's viability as a state may still be fragile. Armenia is more likely to remain a close and stable neighbour, while retaining its own identity. Central Asian countries are likely to move slightly further away politically, preserving their identities and some economic ties to keep a stable relationship with Russia, but also choosing other alliances (particularly with the US and other major regional players).

## **Drivers:**

### *Demographics*

The Russians are not yet showing signs of being able to tackle these major issues properly. Life expectancy is well below normal European averages and the birth rate is very low (the deaths to births ratio is currently 2:1, and the population is likely to fall from 143 to 130m according to US estimates); chronic or debilitating illnesses are high, including among children. There is the prospect of an AIDS explosion, and little prospect that the authorities will be equipped to deal with it, still less prevent it. The population is very unevenly spread, as a result of geography and history as well as economics and Soviet population policies. Siberia and points east only account for 20% of the population (and dropping).

### *Natural resources and environment*

Russia's significant energy resources will be increasingly exploited up to 2020. The EU is likely to become a larger buyer of Russian energy during this period, although the economic benefits of tying in central Asian states by pipelines may lead Russia to look east for energy export customers. Significant, further foreign investment in the energy sector will occur – although the imbroglio involving Yukos, the oil company, and its

founder, Khodorkovsky, may delay this, especially if the affair turns out not to be a one-off attack on a single “oligarch”.

Awareness of natural resource and environment problems is growing, as is willingness to tackle the enormous burden of the Soviet legacy. But it is a huge task, unlikely to be completed by 2020. Russia is unlikely to aspire to Western standards.

#### *Science and technology*

This is a traditional Russian strength, but badly underfunded in recent years. Current economic projections do not suggest that that will change in the near future, but Putin or a successor may take a policy decision to invest more in it.

#### *Global economy and globalisation*

Russia has made some progress on economic reforms, but has problems implementing them “on the ground”. This will continue up to 2020. In addition, major reforms remain to be tackled that are going to be very difficult. These reforms, to some extent at least, will continue to be delayed.

Russia will not have taken off economically by 2020 as China has done. The economy will still be medium-sized by world standards. It will be a hybrid structure, combining elements of the market with (by European standards) significant State influence. Key industries will be corporatised and are likely still to be inefficient. Energy and raw materials will continue to dominate, and Russia’s growth will remain dependent on the price of oil. Economic activity unrelated to energy will remain relatively stunted; few other industries will be internationally competitive. Internal markets (eg capital, labour, products) will remain undeveloped and segmented. The weakness of the rule of law, high incidence of crime and corruption and vulnerability to fluctuations in commodity prices will preclude sustained high rates of economic growth. Economic performance in general will be uneven across the country, resulting in even greater inter-regional inequalities. This will constrain the ability of the leadership to improve domestic living standards and project influence abroad. Whilst Russia will grow, it will not do so sufficiently to tackle the problem of poverty, which affects millions. These people appear to accept their lot, and are not a threat to social/political stability. So in politico/economic terms, Russia in 2020 will rather similar to what we see today. ‘Economic collapse’ (ie a breakdown of essential economic infrastructure) is most unlikely. Corruption and (in certain regions and sectors) organised crime will be important features.

By 2020, there will unquestionably be more foreign economic activity and probably ownership in Russia, though with many hiccups along the way. The legal environment is likely to be tighter though not necessarily fully tracking with European standards. Though internet usage has not yet spread throughout the population, penetration will certainly broaden by then (in whatever form the internet by then exists). It will increasingly allow Russians sources of information not under the control of the Russian authorities; but may contribute to a Russian brain drain as the labour market in the younger generation becomes more mobile both physically and on line.

### *National and international governance*

Putin is trying to continue his initial work on setting in place a proper body of basic laws and administrative reform. But this is uphill work, and it is hard to see where the needed impetus will come from. Recentralisation of power threatens the development of reform and good governance both at regional and central levels. In 2020, important features of democracy (eg elections) will remain at both the federal and regional levels, but the Russian political system will still be highly authoritarian by European standards. Deeper democratisation - eg rule of law, development of vigorous parliamentary institutions, political parties, civil society etc - will be patchy and weak. Respect for human and civil rights is likely to remain conditional. There will be significant regional variations, with civil rights relatively secure in some regions, yet under serious threat in others. In the absence of a major internal convulsion (eg massive economic problems), the Federation will hold together. Paradoxically, political underdevelopment could be a force for stability: there would be an absence of political groups with an interest in fomenting unrest. Russia will retain a UNSC seat.

### *Future of conflict*

Notions of military power will continue to figure more prominently in official definitions of national security than they do in Europe, but there is no question of a return to Soviet levels of defence spending. Reliance on nuclear weapons will remain a pivotal aspect of military planning. The intelligence and security services will still be highly influential.

Chechnya is likely to remain messy but contained at politically sustainable levels for the foreseeable future. Other regional conflicts in outlying CIS states depend on a variety of factors for resolution, but Russia does not hold all the cards, and is not (mostly for reasons of leverage) hurrying to play all those it does hold.

Russia will have moved closer to NATO. Even an application for membership cannot be ruled out.

### *Role of the US*

Russia's view is unlikely to change much overall from its present ambivalence: the US will be seen as the ultimate focal point for foreign policy and an ally, but also resented as a successful rival. The Russians want to be taken seriously as a partner: above all they fear being ignored or sidelined. Barring an extreme nationalist backlash in Russia (which is unlikely), they will hang in with the US. But they will continue to assert themselves, often in clumsy and uneven ways. However sensitively handled, US rebasing – particularly the establishment of permanent US or NATO bases within CIS states in the Caucasus or central Asia - would cut across existing Russian national security principles. Combined with a possible maturing US missile defence programme, this would cause problems for any Russian administration and is likely to lead to periods of tension.

### **What are the most important trends shaping events between now and 2020?**

- Degenerative effects of population reductions and poor health



- Growing oil/gas exploration and extraction across CIS states and disputes over distribution of spoils
- Islamic extremist internal security threats (real or imagined), and reaction to them
- Stresses placed on the relationship between Russia and CIS states over the latter's engagement with NATO/EU and/or hosting of US Forward Mounting Bases

### **Wild Cards**

- Relapse into Political Instability: the Putin regime ends prematurely due to indisposition or rise of a successful political challenger (perhaps from oligarch ranks), followed by a decade of political instability and adventurist leadership.
- Economic stagnation or reverse; Low oil prices and collapse of foreign investment leads to extended depression, with political consequences.
- Internal security crisis: Russia faces renewed export of the Chechen insurgency in North Caucasus, Islamic insurgency in Central Asian states, and civil unrest in Russian Far East associated with Chinese immigration and economic penetration.
- Severe deterioration in relationship with US and NATO over missile defence re-basing and Western military intervention in other parts of the world.